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Policy on the integration of sustainability risks and factors into the investment decision making process

Information sheet and version control

Information sheet

Title	Policy on the integration of sustainability risks and factors into the investment decision making process
Department	Acquisitions
Policy owner	Chief Investment Officer
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Content

Foreword

Following the Actionplan of Financing Sustainable Growth, the European Union implemented the Sustainable Finance Disclosure Regulation ("SFDR"). The goal of the SDFR is to harmonise the disclosure of sustainability risks and the consideration of principal adverse impacts of investment decisions on sustainability factors. Moreover, this aims to reduce the information asymmetries with regard to the integration of sustainability risks and the disclosure of the aforementioned adverse impacts between financial market participants.

"Sustainability risk" is defined in the SDFR as 'an environmental, social or governance (ESG) event of condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment. As a result, investors are therefore mandatory to provide information how it integrates ESG in its risk considerations and investment management decisions.

With this policy document Vesteda provides insight in which potential sustainability risks Vesteda has indentified, how we integrate sustainability risks and principal adverse impacts on sustainability factors in investment decisions of new acquisitions of real estate assets.

Management Board Vesteda

2-3-2021

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Introduction

Vesteda is an institutional residential real estate investor with a large and varied portfolio of homes. Vesteda has a focus on the mid-rental segment and a focus on improving the quality and sustainability of its portfolio. Vesteda invests the pension savings and insurance premiums entrusted to it by institutional investors, such as pension funds and insurance companies, in Dutch residential real estate for middle-income tenants. As such, we contribute to future income security for retirees, affordable living for Dutch middle-income households and to the continued improvement of the quality of urban communities.

Vesteda's sustainability policy targets

We see sustainability as vitally important for the long-term value development of our portfolio, our organisation as a whole and the society in which we operate. We believe that our efforts in the field of sustainability improve and strengthen Vesteda, both directly and indirectly, that they result in future-proof returns on our investments and that they help us to create value for all our stakeholders. Our sustainability targets are an integral part of our business plan, which is approved by our investors on an annual basis, and are therefore firmly embedded in our business operations. From a sustainability risk and impact perspective we look at what risks are most material for Vesteda and to which risks and sustainability factors we can have the most impact on. These are, for example, *transition risks* (which consist of energy performance, carbon emission and circularity), *physical climate risks* (which consist among others of flooding due to levee breach, heat stress and flooding due to heavy rainfall) and *social risks* (which consist of affordability and health and wellbeing). These risks and sustainability factors are incorporated in the ESG framework which can be found in Annex A (the "ESG Framework").

ESG integration in acquisitions

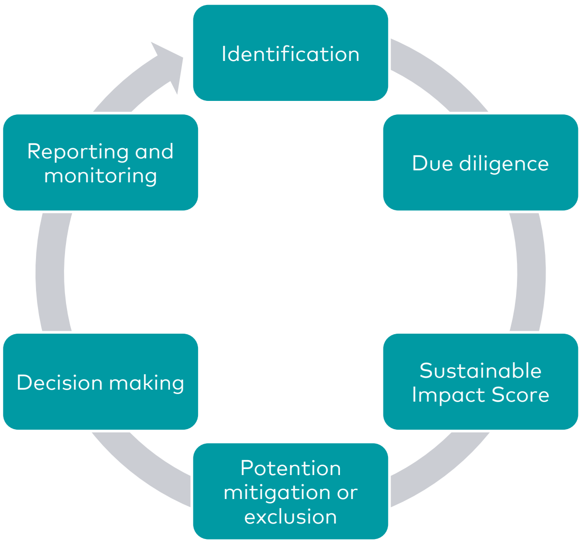
Sustainability and climate risks form an important part of Vesteda's investment decision process for new acquisitions. Vesteda applies its technical standards to assess whether new (potential) investments comply with Vesteda's sustainability and technical requirements (the "Technical Standards"). Since the beginning of this year, Vesteda uses an ESG framework to determine a sustainability impact score for eacht project to provide for a broader scope on relevant sustainability risks and factors.

The Technical Standards already consist of technical and qualitative sustainability requirements that new projects are required to meet. These standards are, in some cases, even higher than the national and local regulations and legislation. For exampe Vesteda has high requirements regarding the maximum temperature inside a residential unit. As temperatures continues to rise due to climate change, Vesteda anticipates on a greater need for cooling measures to safeguard the living comfort of our tenants.

In the ESG framework sustainability risks and factors are incorporated and used to score projects that Vesteda is interested investing in. As a result, each potential acquisition project gets a sustainability impact score based on approximately 25 indicators. The weighted average of this score results in a weighted assessment of the sustainability performance of the project. Although Vesteda already has high requirements on sustainability for many years, the ESG framework and the sustainability impact score is new and will be further developed and refined over time. The integration with the ESG framework will ensure that sustainability risks and factors are fully embedded in the the decision making process.

Investment assessment and decision making process

The assessment and decision making process for new investments takes place in several stages which are as follows:



Identification of sustainability risks

First, potential sustainability risks and impact on sustainability factors of the investment are being indentified. Vesteda uses its Technical Standards and the ESG risk framework (Annex A) to assess the ESG performance of the project. The ESG risk framework will be used both to identify sustainability risks and to identify if the investment contributes to Vesteda's ESG goals. In general, Vesteda assesses new projects with regard to the quality of the product, sustainability and financial risk and return requirements. At first, a selection is carried out to determine whether or not the project meets the requirements of Vesteda and whether it wishes to continue with the potential investment. This will lead to an exclusivity agreement with the counterparty after which we proceed to the next stage.

Screening and selection (due diligence)
Then, due diligence is performed during the screening and selection phase. The goal is to assess the various sustainability factors that may lead to sustainability risks. For instance, the energy source is reviewed in relation to the 'energy emissions and performance' indicator. Hence, Vesteda will try to reduce energy needs of the property and have sustainable energy sources used. This can for instance be done by applying extra isolation measures and/or by using an aquifer thermal energy storage (ATES) or increase the number of pv-panels. Both will have a positive impact in lowering the energy use per sqm per year and increase the use of sustainable energy. As a result, the project will have a positive impact and a higher score on energy emissions and performance.

Sustainable impact score
Vesteda will score the project's sustainability risks and impact on sustainability factors by benchmarking the project against its ESG Framework. After Vesteda has assessed all items in the ESG framework it will result in an overall sustainability impact score (SIS). Vesteda aims to develop a minimum threshold in due course, which new investments need to meet.

Potential mitigation
If Vesteda has identified a potential sustainability risk and the project thus scores low on that specific item, it will together with the counterparty try to find mitigating solutions that can address, reduce or eliminate the potential risk. The developer/contractor will be responsible to alter the design or take additional measures to comply with Vesteda's requirements. If for instance the property is located in a place where there is a high risk of heat stress (such as inner city locations) and the temperature exceeding report shows that there is a high risk of high indoor temperatures, Vesteda will ask the developer to make provisions against temperature excesses. This can be done by the use of passive cooling, a different type of glass or by installing sunscreens and applying a green roof for water retention. This could lead to improvements and alterations of the project to enhance the sustainability impact score and mitigate potential sustainability risks.

Decision making
As described, the aforementioned assessment and due diligence of potential sustainability risks will lead to a sustainability impact score. This score will be incorporated in the Investment Proposal. In the Investment Proposal Vesteda describes the potential investment and gives insight in whether it complies with the risk and financial return requirements. With the sustainability impact score, the potential sustainability risks are explicitly incorporated in the investment decision and Vesteda is able to make a well balanced decision for the specific investment. Investment proposals for acquisitions with a value of > EUR 20 million are subject to the approval of the Supervisory Committee and > EUR 100 million of the participants of the fund.

Reporting and Monitoring
The reporting and monitoring phase takes place after project completion. At this stage the property is finished, rented out and operated. Vesteda monitors the performance and impact of sustainability factors. This is conducted by gathering data from the properties, taking questionnaires from our tenants and perform property performance tests. These results are reported in the several benchmarks such as GRESB and UN PFI. Additionally, the results from

our tenants and property performance tests are gathered. The results therefrom and the results from the benchmarks are an important input for new policy on investments decisions and may cause an adjustment of the ESG Framework and Technical Standards.

Governance

Vesteda constantly seeks to improve the ESG impact of investments and therefore will continuously update the Technical Standards, sustainable impact score metrics, the ESG Framework and this policy. The policy on integration of sustainability risks and factors will be yearly evaluated and any amendments will be submitted for approval to the Management Board.

The Chief Investment Officer is ultimately responsible for the implementation and integration of this policy.

Annex A

ESG FRAMEWORK					
	Sustainability risk indicator	**Strategy and due diligence**	**Sustainability Impact Score (SIS)**	**Potential mitigation**	**Reporting and monitoring**
Climate	• Climate adaptivity • Biodiversity	• Resilience against physical climate risks (flooding, heat stress, groundwater flooding, wildfire and wooden pile rot) • Improve climate adaptivity • Increase biodiversity	• Climate Risk Score • Temperature exceeding and water retention measures • Biodiversity score • Green space per unit (green on roof or façade)	• Adjust positioning/orientation or design of the building • Apply a green roof for heat reduction and water retention • Green inner-courtyards and gardens to improve biodiversity	• Net climate adaptivity risk score • Tenant engagement/satisfaction • Biodiversity and ecosystem practices • Total sqm green surface per unit
Energy	• Energy emission and performance • Energy sources	• Reduce energy consumption • Stimulate sustainable energy • Reduce carbon footprint	• BENG 1 Energy need • BENG 2 Total energy use in KwH/sqm • BENG 3 production of renewable energy in % of total KwH	• Reduce energy use with extra (isolation) measures • Increase sustainable energy (for instance adding solar panels, LED) • Increase the use of renewable energy sources and exclude the use of natural gas	• Measure yearly energy use in KwH per sqm • % of sustainable energy of total KwH • GRESB score

Material and resources	• Water use • Durability and maintainability	• Minimise fresh water consumption • Sustainable usage of materials • Limit operate and maintenance costs	• # of water saving measures • Projected water consumption per unit per year • MPG score • GPR score environment and future value • Average % of yearly maintenance costs per sqm	• Water saving measures • Stimulate environmental friendly materials	• Water saving measures • % of expected water saving per unit per year • MPG score • GPR score • % of yearly maintenance costs in relation to 5 year average of recent acquisitions
Social	• Affordability • Social cohesion • Accessability	• Realise residential units for mid income households • Contribution to social cohesion and social wellbeing of tenants and liveable communities • Well accessible homes	• % of mid rental housing from total units • Of which regulated mid rental in % • # of social cohesion improving measures • Vesteda mobility score • GPR usage quality	• Allocate units for mid income households • Create high quality communal areas and entrances • Design barrier free access and apply ramps and electric doors	• Percentage of mid rental units on total portfolio • Tenant engagement/ satisfaction • Tenant turnover • GRESB
Health and wellbeing	• Temperature exceeding • Indoor air quality	• Comply with technical standard of Vesteda and building codes/ legislation/ planning permits	• Temperature exceedance score • Additional air quality measures	• Apply additional measures if necessary, such as extra air filters in ventilation systems or screens at the façade	• Tenant complaints/ satisfaction • WELL score • GRESB

	• Health and wellbeing employees and tenants		• Private or semi-private outdoor space in sqm per unit	• Design improvements or installation adjustments	
Governance	• Reputation • Compliance • Quality	• Screening of counterparty risks • KYC and customer due diligence • Internal and external audits • Contribution to ESG and social return of counterparties	• Satisfactory outcome CDD • Satisfactory outcome KYC • Audit score • ESG contribution and social return	• Exclude parties with reputational risks • Liaise with companies that have similar ESG standards • Responsible and well balanced decision making	• UN PRI benchmark • GRESB • Audit • Social return